



As reprinted from 04/18/2008

Governor, legislators agree on fix for \$1.2 billion deficit

The Legislature pushed through a budget deal for fiscal 2008 Thursday evening that closes a \$1.2 billion budget shortfall while sparing state agencies and programs from widespread cuts.

But although the deal on the budget met with bipartisan support and the backing of Democratic Gov. Janet Napolitano, some lawmakers were ringing alarm bells about bigger fiscal problems on the state's horizon.

The deficit for 2009 is expected to be larger, and the state's reserves and other tools to handle it fewer. Lawmakers expect to begin work almost immediately on a budget fix for fiscal 2009, which begins July 1.

"We have a real train wreck coming," Rep. Russell Pearce said darkly.

The Mesa Republican is head of the House Appropriations Committee.

"You haven't seen anything yet," House Speaker Jim Weiers told legislators as he hinted at the state budget crisis ahead. "I've been down here 14 years and haven't seen anything as bad as this."

Budget woes have plagued lawmakers since the legislative session began in January. Lawmakers approved a balanced, \$10.6 billion 2008 budget last year, but declining revenues due largely to the housing slump made it necessary to rework it during the current session.

Without legislative action, state Treasurer Dean Martin has warned that the state could run out of available cash by early May, an assertion that Napolitano has flatly rejected. But some lawmakers suggested Thursday that they had Martin's warning in mind as they worked late into the evening to approve the deal for 2008.

The four-pronged, \$1.37 billion stopgap relies on:

- The use of \$487 million from the state's "rainy-day" reserve.
- Cuts in state agencies, boards, offices and universities totaling \$311 million.
- Taking \$300 million from more than 100 special-purpose state funds and fund balances.

For example: \$1.5 million would come out of the children's health-insurance fund; \$41,400 out of the Arizona iceberg-lettuce research council fund; and \$1.6 million out of the juvenile-delinquent reduction fund.

- A fiscal maneuver through which the state will push its final K-12 schools payment for 2008 into the next fiscal year, clearing \$272 million from this year's books.

The budget deal was expected to be signed by Napolitano as early as today.

'Good plan'

"The governor agreed to it," Napolitano spokeswoman Jeanine L'Ecuyer said. "We think it's a good plan."

Senate President Tim Bee, a participant in closed-door budget meetings for weeks, called the deal "a good compromise" that "maximized the cuts we can get" with the fiscal year nearly over.

Among budget cuts, the plan reduces funding for the Department of Corrections by nearly \$20 million, or 2 percent.

The School Facilities Board, which pays for K-12 school construction and upkeep, is taking a 10 percent reduction, equivalent to \$53 million. The Governor's Office, House of Representatives and Senate are each taking lump-sum cuts of 3 percent or just under.

Although the 2008 deal avoids draconian cuts, critics characterized it as gimmickry that will result in bigger problems in future years.

"I did not come down here for smoke-and-mirror solutions," said Sen. Ron Gould, a Lake Havasu City Republican.

"You guys are leading the state into a crisis," he scolded Senate colleagues.

"This is flat-out ridiculous."

Other legislators complained about the process for the budget agreement, which was conceived almost entirely in closed-door talks.

Rather than being run through the typical committee vetting process, the budget deal was attached as an amendment to an existing bill and was subject to only cursory discussion by rank-and-file members in the House and Senate.

"There's no transparency," said Rep. Theresa Ulmer, a Yuma Democrat who argued that legislators had no opportunity to digest details of the budget plan before they were called to vote.

Now, negotiations are expected to immediately pick up on the 2009 shortfall.

It figures to be significantly more difficult to close, given its size and that lawmakers have now exhausted many of the fund reserves and other maneuvers they may have otherwise employed. Some legislators are already talking about program and service cuts that may total \$1 billion.

"We're giving ourselves so little resources in future years to deal with the budget," said Sen. Ken Chevront, a Phoenix Democrat who voted against Thursday's deal.

"It just means it's going to be more devastating in '09."

by **Matthew Benson and Mary Jo Pitzl**